Federal Funds Commission Update

1 About the Commission

The Federal Funds Commission was established by the Legislature (SB 70) during the 2013 General Session. The commission is composed of legislators, gubernatorial appointees, and commission appointees. The inaugural meeting of the commission was held May 14, 2013.

2 Responsibilities

Commission Responsibilities include:

- Studying and assessing:
  - the financial stability of the federal government;
  - state and local dependency on federal funds;
  - the risk of a reduction in federal funds to state and local government; and
  - the impact of a reduction in federal funds.
- Recommending methods to:
  - avoid or minimize the risk of a reduction in federal funds;
  - reduce the dependency on federal funds; and
  - prepare for and respond to a reduction in federal funds.

3 Federal Funds Risk Model

In the 2014 General Session, the Legislature appropriated $350,000 to the commission to create the state's first Federal Funds Risk Model. The commission issued an RFP for the risk model in November of 2014. In January 2015, the commission awarded the contract to Alvarez & Marsal, a well-known global management and financial consulting firm. Work on the project began in late March.

At the commission's May and June meetings, Alvarez & Marsal updated the commission on the model's design. Though incomplete, the capabilities of the risk model were demonstrated using risk scenarios such as:

- federal interest rate increase;
- federal government fiscal cliff and sequestration; and
- reduction in Medicaid spending.

Commission members and staff envision numerous applications for the tool and the information it provides. For example, when the federal government contemplates changes to national fiscal policy, the state could use the tool to assess the potential impact of those changes on the state. The state could then discuss those impacts with its congressional delegation. The tool could also be used to model the effect of the next shutdown, fiscal cliff, or sequester. The results could then be used by policymakers and their constituents to make better decisions for the state. Additionally, in advance of any change in federal funding, the tool could be used to model potential loss scenarios and help the state develop strategies to mitigate such loss through expectation setting, debt capacity management, and contingency fund development.